HAAS Fydroski Financial Services, Inc.
Investments - Planning - Education

# IPE Insights

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## Look Back - 2nd Quarter 2014

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*"It is perhaps an all-too-human frailty to suppose that a favorable wind will blow forever."*
-- Richard Bode, American writer

**QUIET.** Yes - you read what I wrote - Quiet. Unlike the volatility of many stock market quarters of the past few years, the second quarter 2013 saw a sea of calm in the financial markets with only minor ripples in the water. In its longest stretch since 1995, the S&P 500 finished the quarter going 51sessions in a row without closing up or down more than 1% (broken July 17, down -1.18%). As many of us know, the S&P 500 represents stocks of the largest 500 corporations in the U.S. The S&P 500 and the Dow Jones Industrial Average (30 stocks) are among the most widely quoted indexes in our daily news reports.

The second quarter 2014 scorecard saw the DOW register a +2.2% gain and the S&P 500 move up +4.7%. The NASDAQ Composite came in slightly ahead of the S&P 500 with a return of +5.0%. (Source: Wall Street Journal 7-1-2014). U.S. Stock Mutual Funds landed between the DOW and S&P 500 with an average second quarter return of +3.4%. Gold Oriented Funds were the sector winner with an average return of +13.4%. Natural Resources Funds came in second at +11.5%. The Average Taxable Bond Fund returned +1.9% for the second quarter. (Source: Wall Street Journal 7-7-2014).

Over the past two years, I've mentioned several times in this newsletter how the stock market rally has been kept afloat by the easy monetary policy and stimulus packages of the Federal Reserve. Any hint of a stock market correction in this time period saw the Fed come to the rescue with either more stimulus money (Quantitative Easing) or verbal reassurance to calm the markets. How unusual is our current time frame without a market correction?

According to the Wall Street Journal's data group, on average, the Dow experiences a correction of 10% or more every 12 months, or once per year. The market has now gone 33 months since its last correction in 2011 (when the Dow declined 19%). The data also shows that since 1945, most corrections began in October, May, July, and August. They are the most dangerous months. As of this writing, the S&P 500 has now gone over 1,014 days without even a 10% correction. That is the longest stretch since it went 1,127 days, from July, 1984 to August 1987, without a correction. That period ended with the 1987 crash and the S&P 500 down 36%. The average bull market over the last 100 years lasted 53 months. The average bull market since 1970 lasted 56 months. The current bull market is now at an extended 65 months. (Source: Street Smart Report 7-16-2014). Corrections are a normal part of market behavior. We are long overdue and this is why I have been highly concerned and more conservative over this current period.

On a related topic, I recently came across an article by Mark Hulbert that I found most interesting and would like to share the findings with you. Mark Hulbert began monitoring an initial group of 36 investment newsletters in 1980. After many years of independently publishing the Hulbert Financial Digest, it was sold to Market Watch/Dow Jones. However, Hulbert still serves as editor. Along the way, the number of letters currently monitored has grown to over 500. Of the original 36, only twelve are still being published. Of that 12, only 3 have outperformed the S&P 500's +11.7% annualized return including dividends over the last 34 years.

Some of the more interesting findings of the Hulbert article:

- Each of the three winning newsletters approaches the stock market in different ways. The Prudent Speculator favors individual value stocks and holds them for many years. The Value Line Investment Survey focuses on price and earnings momentum and rarely holds the stock for more than one year. And the NoLoad FundX letter favors no-load mutual funds using a short term trading strategy. The lesson here is that there is no single strategy for success and that the market is very difficult to beat.
- Of particular importance to note is that all three successful strategies have lagged the broad market over shorter periods of time. Each winner lagged the S&P 500 in more than half of the five-year periods since 1980. The point to remember is that no investing system beats the market all the time. A year or two of underperformance does not negate a good investment approach. Some investors expect market beating performance every year and that just does not happen.

So why not just invest in an S&P 500 index fund if beating the market is so difficult? As a brief explanation, indexing is a passive investment approach that does not seek to outperform the specific index it is based upon. It seeks to match the investment returns of a specified stock or bond market benchmark, or index (ex. S&P500, Barclays US Aggregate Bond Total Return etc.). The investment manager attempts to replicate the investment results of the target index by holding all or a representative sample of the securities in the index. There is no attempt to actively manage the holdings to outpace the index.

Again, so should you only consider index investing? A good case can be made for index investing if you are in your 20s, 30s , 40s and have plenty of time to recover from the inevitable down periods in the market. If you are a retiree or pre-retiree who needs the money to live off of in retirement or you are forced to take required minimum distributions, it is a different ballgame. Managing losses becomes critical since your investments do not have the time to recover from market downturns. If you are making withdrawals from your retirement account, steep market losses in the first three years can negate the projections of how long your money will last by as much as 10-15 years. The losses experienced in 2008 changed a lot of retirement plans. This is where the Money Management Program can help. Risk management with good results over time is our specialty. Give me a call for more details.

Since many of my guest article contributors are on vacation in July, I am taking a page from the Charles Kuralt "On the Road" book of journalism. The "guest article" will be nature scenes from my chestnut tree farm up north. Summer always seems to be much too short so enjoy the here and now. Take good care!!!

## “Under the spreading chestnut tree”......

Chestnut trees are native to the Northern Hemisphere and are commonly grown in North America, Europe, China and Japan. There are about nine species of chestnut trees, most of which are native to North America. Chestnut trees are sterile, so at least two in close proximity are needed for the trees to cross-pollinate and produce chestnuts. The chestnuts themselves have been valued for centuries as a food source and are considered a sweet-tasting nut.

The size of a chestnut tree varies greatly dependent on the species. Some chestnut trees are really shrubs, but others grow to be in excess of 30 or 40 feet.

The road to Fydroski Chestnut Tree Farm

Chestnut trees do best in areas where they experience frost and snow and are able to lie dormant for a period.

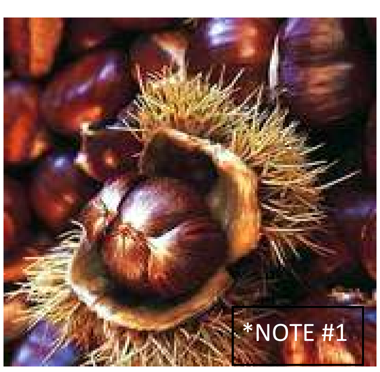
Every mans’ fantasy - my own John Deere.

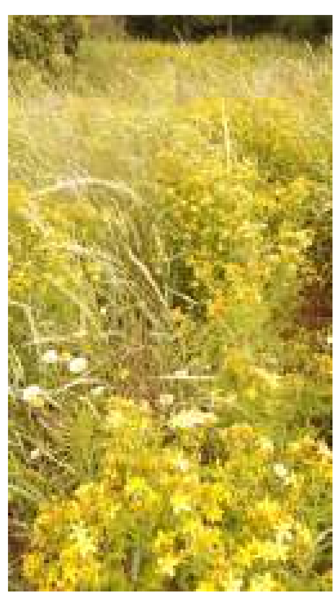
I AM NOT Marijuana !!!

I am a baby chestnut tree grown from a seed. It can take between 10 to 12 years to mature to the point that it will bear fruit.

I can’t find my keys, Cecelia!

I still can’t find my keys?



Chestnut trees produce chestnuts. The fruit can be found in burrs that grow in clusters on the tree. Depending on the species, burrs contain between one and seven nuts. *NOTE #1 - Jim did not actually take this picture...but I thought it was pretty relative—just to show what the chestnut burr looks like!*



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